511 villages are yet properly supplied. The shortage of food, of course, is more acutely in the cities. Moreover, the purchasing power of the salaries--and practically everyone in a Communist society is a salaried worker--is definitely low.

[465] The average monthly income of an independent farmer owning 5-10 acres of land was between 400-500 forints in 1954. At the same time, kolkhoz officials and agronomists were making around 1,000 forints.

435 511 Below are listed some of the 1954 prices in various Magyar villages which will perhaps give some indication of how far the average wages could go:

	forints
Rice (1 kg.)	26.00
Sugar (1 kg.)	10.60
Smoked lard (1 kg.)	47.00
Sausage (1 kg.)	50.00
Man's suit (cheapest)	600.00
Man's shirt (cheapest)	80.00
Man's shoes (one pair)	300.00

511 433 Manufactured goods during this time were not only expensive but scarce. For instance, 30,000 plows were needed in the villages in 1954 in order to replace the old ones, but, according to government sources, only 2,000 reached the village stores. The same situation

3:Kemeny G-5 (1945-48)1952 EC1-Hungary EC1

important for food, was not of appreciable significance as far as raw materials were concerned. Nevertheless the leakages did involve some disturbance within the planned portion of economy, especially in the sphere of labour, where the attraction exerted by the higher wages paid by the small employers restricted the supply of skilled labour for factories.

Labour Market

Individual enterprises were obliged to draw up specific manpower plans, but no central planning was established for the labour market. The planners were satisfied that growing production would automatically absorb parts of the labour reserve. They did not plan for full employment, realizing that the Three-year Plan would at the most provide employment only for a part of the labour reserve in the rural districts. Owing to the certainty that reserves were far in excess of Plan requirements, the recruiting of labour, except where skilled labour was concerned, was left in the hands of the employers, using the services of the labour exchanges for that purpose without any authoritative interference. The wages at which applicants were to be engaged had been fixed, of course, by approved collective agreements.

The increase in numbers employed was markedly slow during the first Plan year, as 'in-door' unemployment, widely spread in 1946–7, had first to be absorbed. Owing to the surplus of unskilled labour there was no need from the economic point of view for comprehensive labour organization, but steps soon had to be taken to overcome the shortage of skilled labour.

THE TARGETS—PLANNING FOR EXPANSION

As officially proclaimed the fundamental conception of the Plan was to raise production on a scale sufficient for a gradual improvement in the standard of living, and for a capital accumulation at an unprecedented rate. The initial impetus for an accelerated rhythm of economic activity given by the Plan was supported by an extension of credit, which was not necessarily inflationary in an economy with unutilized resources. The subsequent expansion of production was to be effected by a steadily enlarged capital equipment and by improved labour productivity. Industrial production was estimated at about 60 per cent of the pre-war level in 1946–7. The Plan envisaged the re-establishment of the pre-war standard of living by the end of the three-year period. In view of a steeply rising rate of net investment—from 10 to 18 per cent, against some 5 per cent in the

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

DISPROPORTION BETWEEN INCOMES AND SUPPLIES OF CONSUMER GOODS

465 In view of prevailing shortages an attempt was made as early as in August 1946 for planning in a rudimentary form to adjust money incomes to the amount of consumer goods available. It was this concept that caused the authorities to suggest wages in industry averaging 50 to 55 per cent of the pre-war level; for clerical staff the relation to pre-war earnings was to be fixed according to the amount of the salary between 30 and 55 per cent, and for civil servants at an average of 33 per cent. Intentions to stabilize wages at the rates quoted were, however, frustrated by soaring food prices. A race between wages and prices started. In July 1947 average hourly wages in manufactures exceeded by almost 50 per cent the level of the previous October. Yet results for the wage-earners were poor in terms of real earnings. It could hardly be expected otherwise in view of a national production of about two-thirds of the pre-war volume. A few figures substantiate the extent to which, on the eve of economic planning, consumption (in quantities) lagged behind that of 1938.

	Consumption in 1946–7 1938 = 100
Total food (in terms of calories)	66
Milk	50
Sugar	94
Eggs	80
Cotton goods	63
Woollen goods	32
Domestic fuel:	
Coal	23
Wood	37

[185] The idea of equating consumers' aggregate income with supplies in consumer goods was incorporated in the Plan. The intention was to raise wages and salaries step by step with the increasing output and the resulting increase in the flow of consumer goods. The idea of the planners was to pass into planned economy with a wage level unchanged (i.e. at the level of July 1947) and to consider a revision of wages after the lapse of six months, according to the position then attained. But the Government's control over wages was not tight enough. The trade unions insisted upon a general wage increase of 10 per cent as from 1 August 1947 and the Government, taken by surprise, was unable to refuse confirmation. Thus the Plan started with inflated wage rates and in the absence of a change in the basic conditions the race between prices and wages continued. As stated by the National Planning Department, average earnings per hour in manufactures amounted to 2·71 forint in 1947–8

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against 1·70 forint in 1946–7. On the basis of yearly averages, there was a rise by 59 per cent, compared with a 14·6 per cent increase in the cost of living as reflected by the official index, making real earnings higher by 40 per cent than in the year preceding the Plan.[1] The computation disregards the existence of black-market prices as essential components of the cost of food. This cost-increasing factor existed in both the years compared, and its omission makes the comparison unreliable. Nevertheless, it can be surmised that real trends are reflected.[2]

The question might be raised to what extent supplies were available for improving the standard of living, even if only for the privileged class of wage-earners. Undoubtedly the output of consumer goods, as a part of the generally rising industrial production, was enlarged. The harvest was a little more favourable than in the previous year. Owing to this, and even more to improvements in the system of collecting the quotas, the food supply of the urban population was somewhat better than in the previous year. The upward trend in supplies was indicated by the estimate of the national income, according to which the amount of goods available for the consumer in the first Plan year exceeded the amount in 1946–7 by 30 per cent.

The official statement on the scale of increase in consumption needs some qualification. In the computation of the national income no allowance was made for the accumulation of stocks. According to expert estimates, stocks increased by about 850 million forint in 1946–7 and by 2,100 in 1947–8. If deductions on this account were made, the amount of goods available for domestic consumption would work out as follows (see Table XI, p. 141, on national income):

	1946–7	*1947–8*
	(million forint)	
Available for domestic consumption as officially stated	10,689	13,934
Less increase of stocks	850	2,100
	9,839	11,834

This more realistic approach reflects a definite upward trend in domestic consumption, too, but on a more moderate scale with a rate of increase of roughly 20 per cent.

[1] The fact that the rise in wages considerably outpaced the increase of the price level is explained by improvements in productivity per head. This implied that wage costs did not change in proportion with the rise of wage rates.

[2] The disregard of black-market prices in the official index of the cost of living invalidates comparisons with pre-war standards, and in particular the claim of the Hungarian planners that by the end of the first year of the Plan real wages had attained the pre-war level.

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shortage in vegetable food. Harvests in maize and sugar-beet were, however, disappointing. Failure of the maize crop explains why supplies in meat continued to be scarce.

It may be recalled that during the first Plan year the country laboured under a food shortage, with all its implications for prices and wages. The period August-December 1948 was the first since the monetary reform in which the cost of food declined. A reversal in the trend of agricultural prices, due to causes already explained, was the prelude to this change.

The extent of the improvement brought about by bigger crops might be illustrated by comparing the peak of the retail food index in February 1948 with the low point of that year in September: 159·9 against 113·9.[1] Prices then caught up again with a concomitant revival of the black market, as apportionment even of the low rations became irregular. It was a poor record of the state of efficiency in food administration. Political headquarters accused the peasants of sabotage. The countermeasures taken were not to produce palpable results till the following year.

Wage policy was adapted to the change of conditions. In contrast with the line pursued at the start in August 1947, the second Plan period did not open with a general rise in wages.[2] The pay-roll in manufacturing industry grew roughly in proportion to the expansion of employment. Average wages, as shown by official indices, were kept stable in mining and appeared to decrease slightly in manufacturing industry. The Government and trade unions were able to follow this line owing to increased food supplies reflected in declining official prices and owing to a diminishing dependence on the black market.

The publication of index numbers, as well as of other relevant statistical data, ceased in 1949. The National Planning Department, in a statement released to the press, claimed that real wages had increased by 20 per cent during the first half of the year. In the second half a further general rise by 5 per cent was recorded. In the earlier periods the upward movement of money wages had been induced and accelerated by soaring food prices. This time the cost of living was diminishing. The harvest of 1949 further improved vegetable food supplies. It was followed by the de-rationing of bread and by the practical disappearance of the black market for food. According to official statements the cost of living decreased by 7·4 per cent and the cost of food dropped by 12·4 per cent during 1949. Wage increases gained therefore a different significance from those previously

[1] See Table IV in the Appendix, pp. 137–8. [2] See p. 50.

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435 granted; their effect on purchasing power appeared reinforced
•465 by the reduced cost of living. These developments, combined
511 with an increased output of manufactured consumer goods, resulted in improved living conditions. There can be little doubt that more abundant supplies resulted in an appreciably higher standard of living in comparison with the level at the start of the Plan, though statistical data revealing the degree of improvement are lacking.

INVESTMENT AND FINANCE

652 The first and one of the most important implications of the
454 decision to shorten the total period of the Plan was the speeding up of the capital programme. For the financial side of the programme, the Government disposed of a banking system shaped according to the Soviet pattern, and entirely under their command. The bulk of investment was naturally financed, as before, out of the budget. It became a characteristic feature of estimates of investment that they represented minimum programmes. For the short second Plan period the estimate had been 1,100 million forint, while actual investment worked out at 1,530 million. For 1949 the corresponding figures were 4,300 million and 5,660 million forint. In a final report the latter amount appears to be raised by a further 630 million forint. In view of the tightness of financial controls, any exceeding of the capital programme (unless consequential on authorized increases in wages or prices) was impossible without a previous screening and consent of the authorities. An extension of investment, whether initiated by some Government agency or by the executives of one of the concerns, was to be fitted into the monthly financial plan, which was drawn up by the National Planning Department in co-operation with the Ministry of Finance, and had to be approved by the Supreme Economic Council. As the speeding up of the capital programme mostly affected heavy industry the extension of which was, not solely for economic reasons, the concern of the Government, initiative evidently lay mostly with the Government. Both the Government and the Planning Department were intent on extending the capital programme to the limit of technical possibility.

The increasing financial strain is reflected in the following figures:

	Monthly Average of Investment (million forint)
Plan period I	208
Plan period II	306
Plan Period III	470–520

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The poor result is the more remarkable as much attention was given to the mechanization of the coal mines.[1] [316] 433

On all these grounds put forward the claim has to be dismissed that subsequent to the Plan period a substantial addition to the output as recorded previously would have been discovered, entailing a most impressive improvement in productivity. A scrutiny of the facts indicates that the revision of the earlier figures did not result from the elimination of some statistical errors, but was a piece of political propaganda.

Developments during 1949 widened the gap between the cost and the productivity of labour. It was officially stated that average hourly wages in manufactures rose between January 1947 and December 1948 by 86 per cent. For the first half of 1949 a further 20 per cent rise was announced. Taking the figure for January 1947 as representing the average wage for 1946–7 (an assumption not quite correct, yet near the facts), in 1949 wage costs were roughly 120 per cent higher than in the basic year. Productivity in manufactures rose from about 69 in 1946–7 (1938 = 100) to 96 per cent by the end of 1948. As pointed out, further development of productivity was, if any, only slight, so that a rise of some 50 per cent in productivity compared with a 120 per cent rise in wages. While this kind of overall figure is far from providing a precise yard-stick, it does point to the existence of a considerable maladjustment between wage costs and productivity of labour. As it seems, the growth of wage costs has outstripped the cost-saving effects of greater labour efficiency. Improvements of the social services contributed to augment labour costs. According to a trade-union expert the outlay for health service and social insurance per head doubled in the first Plan year, and the final report of the National Planning Department says that the whole cost of social services in 1949 was met by employers' contributions amounting to 38 per cent of the pay-roll. There were no workers' contributions in the form of deductions from wages. 433 465

Labour costs evidently presented the main problem, but by no means the only one. In dealing with the costs of production, the head of the National Planning Department complained of the use of quantities of fuel and materials well above peace-time levels, and of the very little economy attained in this respect during the first Plan year. A matter of serious concern was the high rate of waste. In heavy industry it exceeded the pre-war 433 461

[1] In the first year of the Plan 110 million forint were spent on the re-equipment and extension of coal mining (total industrial investment including mining 792 million). For the later phases no figures are available, yet it was officially stressed that much had been done towards mechanization.

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433 second Plan, that for the years 1950–4? If so over-fulfilment would bear fruit in the future. On the other hand was the excess in investment due to miscalculations? Or was it intended to compensate for the slow progress in labour efficiency? Under democratic institutions such problems would be freely and thoroughly discussed. Under totalitarian rule the fact that investment exceeds the estimates by thousands of millions of forints is recorded with the same monotonous complacency as a rise in current production. But if investment is carried through quite out of proportion to original estimates, without being warranted by an adequate rise in production, it becomes highly questionable whether such a proceeding can be termed economic planning.

Until recently a common feature of planning in the countries of Eastern Europe has been, in contrast with a country with full employment, the prospect of drawing on reserves of labour. In the case of a full utilization of resources the several parts of the plan have to be synchronized, and, if the productivity of labour falls short of requirements, production will fail to reach the target. Under conditions of planning in the East of Europe the statistical returns of production may appear highly satisfactory, yet, in proportion to the labour force and the capital equipment employed, they represent results far short of successful planning.

511 The original aims of the Plan, officially confirmed later on,
465 were:

(1) To reconstruct and re-equip Hungarian economy;
(2) To raise standards of living.

The first objective has been achieved. As to the second it may be questioned whether the increase in well-being was proportionate to the efforts made. The concrete programme of the Plan in the field of consumption was slightly to improve upon pre-war standards. By the end it was claimed (yet not proved) that the real earnings of the workers would be 40 per cent above pre-war level. This claim can be dismissed. Only by neglecting the impact of the black market on the cost of living could it be maintained that pre-war standards were reached as soon as mid-1948. As only average wage-rates for the whole of manufacturing industry were released, the lack of detailed information in a period of changing wage structure obscured the real position. The gap between the lower and better-paid categories of worker, which had previously been quite substantial in Hungary, was narrowed. Extremely low pre-war wage-rates, like those in the textile industry, were improved. On the other hand groups, such as that of the printers, which had formerly been very favourably placed, found themselves nearer the average.

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511 onwards their contribution to the Five-year Plan loan is included in that item.

511 466 The hourly average wage in manufactures, 1·70 forint in 1946–7, rose to 2·71 in 1947–8 and further to 3·50 by mid-1949. As no changes of considerable extent occurred in the ensuing half of the year, the last figure may be assumed for the end of the Plan. In spite of shifts in the price level those figures represent appreciable relative improvement in real terms. Yet results were poor as shown by international comparison. According to the computation of the Economic Commission for Europe,[1] based on average earnings in mid-1949, the Hungarian worker had to work 19 minutes (the British worker 11 minutes) in order to earn the equivalent for 1 kilogramme of bread; the equivalent for 1 kilogramme of meat in terms of working time was 160 (84) minutes, for bacon 430 (120), and for sugar 110 (22). It could hardly be assumed that the relative position of the Hungarian worker in terms of manufactured products would be more favourable than that regarding food supplies.

Whatever improvement was attained, the rise in the standard of living of the wage-earners was, as officially stressed, not exclusively due to the increasing supply of consumer goods. To a certain extent the redistribution of incomes also contributed to this development. The progress in the social condition of the work-people had its counterpart in the deterioration of that of the middle classes as a result of a deliberate policy.

AN INDUSTRIAL HIGH-COST AREA

434 It has been seen that the Three-year Plan was drawn up as a national plan. Economic co-operation with the Soviet Union and the Russian-dominated countries was, of course, encouraged. Yet it was by promoting closer trade relations, and not by attempts to co-ordinate planning, that this was brought about. The exchange of commodities on an increasing scale was possibly kept in view at a preparatory stage, and it may also have entailed modification of the Plan in the course of its execution. But this sort of co-ordination of economic activities is different from that to be achieved by joint planning, which would modify the division of labour among the different national industries. That result might perhaps be brought about through closer trade relations, but trade as conducted between the countries of Eastern Europe does not itself give rise to a rational division of labour. When international competition is excluded and a barter trade is carried on on a bilateral basis, the inter-

[1] See Appendix, Table XII, p. 141.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

TABLE II

LABOUR

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Labour Force (yearly averages)

	1938	*1946–7*	*1947–8*	*1949*
Mining, metallurgy	41,500	59,000	61,000	67,000
Manufactures	288,500	250,000	291,000	382,000

Wages

465

Average daily earnings in Mining and Manufactures
(in forint)

Quarter to	*1946*	*1947*	*1948*
March	—	12·90	18·20
June	—	14·96	—
September	10·14	17·89	—
December	12·26	17·80	—

Average hourly earning in Manufactures
(in forint)

October 1946	1·29
Average 1946–7	1·70
Average 1947–8	2·71
August 1948	3·07
July 1949	3·50

DISTRIBUTION OF OCCUPATIONS

Census 1941

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	Working Population		*Non-earning Population*		*Aggregate*	
	Thousands	*% of Total*	*Thousands*	*% of Total*	*Thousands*	*% of Total*
Agriculture and forestry	2,154	47·8	2,383	49·5	4,538	48·7
Mining, metallurgy	55	1·2	111	2·3	166	1·8
Industry	1,057	23·5	1,142	23·7	2,199	23·6
Commerce and banking	260	5·8	256	5·3	516	5·5
Communications	140	3·1	234	4·9	374	4·0
Civil service and professions	230	5·1	242	5·0	472	5·1
Armed forces	128	2·8	30	0·6	158	1·7
Domestic servants and casual workers	201	4·5	51	1·1	252	2·8
Rentiers and pensioners	200	4·5	186	3·9	386	4·1
Not specified	77	1·7	176	3·7	253	2·7
Total	4,505	100·0	4,815	100·0	9,320	100·0

destruction. The power, aluminum, heavy chemicals, rayon and oil industries owed some of their best and largest plants to the program. The achievements of the postwar Three Year Plan, and to some extent even those of the First Five Year Plan, rest on the foundations laid by the prewar Billion Pengoe Investment Program. The extent of industrialization can best be measured by the number of factory workers which increased from 289,000 in 1938 to 392,000 in 1943. By comparison, the total increase in the 1925-1938 period was from 199,000 to 289,000.

Parallel with the program of industrialization there was significant social progress, some of it financed out of funds provided by the government under the plan and some of it out of the profits of industry running in full gear as a result of government spending. Health services in rural areas were improved. State-sponsored cooperatives were started to cope with rural under-employment and the rehabilitation of peasants owning less than subsistence farms, so called "dwarf-holders." The limit, which was somewhat arbitrary, was 2.9 hectares. Paid holidays and family allowances were introduced for industrial workers, wage boards were set up to fix minimum wages both in industry and agriculture, and some progress was made in the resettlement of the landless agricultural population.

The Standard of Living

According to the blueprint, the volume of goods available for consumption, the measure of the general standard of living, was to be 29 percent greater in the first year of the plan, and 77 percent greater in the third year than in 1946-47. Relative to prewar standards, the increases were to result in a standard of 76 percent in the first, 90 percent in the second and 104 percent in the third year. In 1946-47 the volume of goods available for consumption was given as 66 percent of prewar.

It was claimed that a level corresponding to 86 percent of prewar was reached in the first year and that in 1949 the level surpassed that of prewar by 37 percent. Thus, relative to 1946-47, the increase was 30 percent in the first year and 108 percent in the period as a whole.[41] Due to the radical redistribution of incomes, the improvement in the standard of living of the workers was even greater. Real wages in the manufacturing industry were claimed to have been 40 percent above the 1938 level.

A careful study of available data showed that the national income figures were overestimates: first, through not accounting properly for depreciation and through some rather optimistic assumptions concerning the efficiency of production; second, through not accounting for the accumulation of stocks which must have been considerable. On the first count, the estimates have to be decreased by up to 5 percent. Accounting for the accumulation of stocks requires an even greater reduction in the volume of goods available for consumption.

According to the First Year Report, in 1947-48 the volume of goods available for consumption was 13.9 billion forints against 16.3 billions in 1938. Of this, 440 millions were the result of the adverse balance of trade, an unexpected development. After the adjustments for the optimistic assumptions in estimating the national income and deducting 1.0 billion forints for the increase in inventories (which is only half of the increase

41. A comparison between the blueprint and the First Year Report, the Final Report and various official pronouncements is difficult because, as it was pointed out above, the blueprint and the reports operate with a different concept of the national income and also because, due to some adjustments, they use different figures for 1946-47. The national income and the volume of goods available for consumption as given in the report are somewhat smaller than in the blueprint. Thus the 1946-47 level relative to prewar and the increases relative to 1946-47 become different. The percentages quoted in the text have been adjusted to make them conform with those given in the reports.

34 percent. Iron, metal and engineering showed a 41 percent increase. 433

Output of the principal goods is quoted on the basis of the percentage of output in the corresponding period of 1949 and the list of goods is very restricted. Output of coal was 20 percent, oil 3 percent, iron ore 16 percent greater. Output of power increased by 21 percent. The output of producer goods seems to have increased considerably more than that of consumer goods. Phosphate fertilizers, cement and tractors head the list with 132 percent, 109 percent and 91 percent increases, respectively. The production of woolen and cotton fabrics increased by 8 percent only.

The volume of building was claimed to have been as great in the month of March as in the first quarter of 1949. Private information received from Hungary substantiates the claim to high building activity. But most of the buildings seem to be government offices or factories.

It is claimed that the number of workers in mining, industry and building increased by 27,000. If the estimate of their number at the end of 1949 was correct, 440,000 in mining and industry and 130,000 in building, the increase amounts to 4 percent. Accelerated training courses had been completed by 13,400 apprentices, 5,300 of them in the iron, metal and engineering industries. It is not clear whether they were included in the figure quoted above. 464

Productivity in the heavy industries showed a slight decline against December 1949, the postwar peak, while light industry recorded a 7 percent improvement over the same period. Average hourly wages increased by 8 percent in the manufacturing industry, bringing with them a corresponding increase in real earnings as there was no change in the cost of living. Private sources report a shortage of some important foods which does not seem to be reflected in the cost-of-living index number. 461 465 433

Railway traffic is claimed to have surpassed the corresponding 1949 figures by 35 percent in ton-miles and 22 percent in passenger-miles. 497

Both the number and the turnover of state wholesale and retail stores and cooperative village stores were reported to have increased considerably. 438

Investments were 58 percent greater than in the corresponding period last year; that is, the state invested 1.2 billion forints against 0.7 billion last year. 454

Building activity has been speeded up. In comparison with the corresponding period last year, the volume of construction of buildings of all kinds was 152 percent greater and in other constructional work 237 percent. Over the period the number of workers engaged in construction work increased by 26,000.

At the same time an increase of 17,000 workers was claimed in the mining and manufacturing industries. As the increase was reported to be 31,000 in the first quarter of 1950, the total increase in the first half of the year would be 48,000. At the end of 1949 the total number of workers in mining and manufacturing was an estimated 440,000, and in building an estimated 130,000.

In contrast to the first quarterly report, the second quarterly report keeps silent on the question of productivity and wages.

Passenger-miles and ton-miles of the railways were above those in the corresponding period in 1949 by 32 percent and 18 percent respectively.

Both the number and the turnover of the state and cooperative village stores were reported to have increased considerably.

Investments of the state, now the only investor, amounted to 1.8 billion forints against 1.2 billions in the first quarter. Very reticent on the matter of finance, the report only states that the expanded investment program did not affect the balance of the budget.

A few weeks before the report[1] was published, the Chairman of the People's Economic Council reported on the progress of the people's economy to the Central Executive of the Hungarian Workers' Party. The picture he drew was in some ways more revealing than the text of the report, and fits better into the picture that can be pieced together from events and incidents reported in the party press, from information that trickles through, and from the government measures.

According to the statement, the wage bill in the manufacturing industry increased by 24 percent between April 1949 and April 1950, while the increase in real wages was even greater. Increases in other employment were smaller but still considerable. The Five Year Plan anticipated an overall increase in the standard of living of 35 percent in five years. But in the first four months of 1950, real earnings per capita in the manufacturing industry increased by 18 percent while this improvement was accompanied by an increase in productivity, as measured in volume of output per working hour, of only 9 percent. In comparison with prewar, the level of real earnings was 62 percent greater.

[1] [i.e. the second quarterly report of 1950 – Analyst]

Soon after the warning of the Chairman of the People's Economic Council, a new wage system was introduced which reduced earnings unless output was stepped up considerably. The wage-reducing effect of the new piece-rates was first denied but later openly admitted. It led to widespread resentment expressed in wage frauds, the slackening of work competition and acts of sabotage which prompted the government to resort to strong measures. A new decree was issued to protect social property, threatening the death penalty to those responsible for serious damage. Together with the revision of wage rates, the terms of the work competition were made stricter and control was tightened. Identification cards were introduced showing a record of employment, and unauthorized changes of jobs brought punishment. "Social tribunals," consisting of workers and party representatives, were set up to deal with slackness, lack of discipline, and minor frauds while ordinary courts began passing sentences of several years imprisonment for relatively minor wage frauds. The reform of the criminal law made a socially dangerous attitude a crime liable to punishment, and introduced forced labor as a method of punishment.

All this fits very unconvincingly into the picture of greatly improved standards of living. One is led to suspect that the true rate of improvement must have been very much below that claimed, if attempts to slow down the rate and lower the level could have evoked such widespread and serious resentment as indicated by the severe retaliatory measures.

Nevertheless, there was no slackening in the execution of the investment program. Recent announcements speak of even speeding up investments scheduled for 1950 by 0.9 billion forints, that is, by about 10 percent. But 38 percent of the additional investments were to be spent on housing, cultural and welfare schemes, 43 percent on railway and road construction, the rest on agriculture.

9: Eppstein S-4 (no date) 1945 EC1 Hungary EC1

CONDITIONS OF LABOUR. Wages in Hungary are low compared to English standards, but higher than in Rumania or the Balkans. They are especially low for unskilled and female labour, whereas the skilled craftsmen, of whom there is a shortage, can command a fair price for their work. Collective bargaining exists, and wages are fixed for trades, varying between Budapest and the provinces. The cheapness of food and the fact that few workers have to live far from their place of work partly offsets the small money wage. In recent years a good deal has been done to improve general working conditions. The biggest gap is the absence of any system of unemployment assurance, or even of any organized relief. In other respects, however, social legislation in Hungary, for the industrial worker, compares not unfavourably with that of most countries at a similar stage of economic development. Since the last war a very modern system of sickness assurance was introduced. Shortly before the present war, old age, invalidity and dependents' assurance, Sunday rest and holidays with pay were introduced, and, after hours of work had come down rapidly by trades, the 8-hour day and 48-hour week were introduced in principle. When war broke out, the Government took powers to suspend all protective legislation, but did not use its powers widely, beyond introducing compulsory direction of labour in agriculture and in factories working on war production. A great deal of overtime was worked in some factories, but the legalized overtime rates were paid. Sunday rest and holidays with pay remained in force. The whole wage and price level was taken

RECENT DEVELOPMENTS

315 natural level of prices at the time."[1] Between June 1945 and July 1946, the artificially fixed prices ranged from eighty-one cents to less than one cent per barrel. It is significant to note that Article 28 of the contract provided for cancellation of the concession in the event of bankruptcy

This effort also failed, however, and with the signing of the peace treaty Russian military representatives disappeared from the oil fields and MAORT resumed near-normal operations.

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661
471 In May 1947 the Communist Party, backed by the Red Army, ousted the non-communist government and took over the country. A three-year plan was announced for all branches of industry. The government purged most of the reliable MAORT employees early in 1948, on various pretexts, and in May it appointed a communist "controller" for the company. All Hungarian-owned industries had been nationalized without compensation in April. The following September two American directors of MAORT were imprisoned on charges of sabotaging the Three-Year Plan, along with the former Hungarian manager and key employees. The Americans were released after having been forced to sign confessions; the Hungarians were given long prison sentences. In September 1948, MAORT was confiscated.

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465 The government allowed some technical directors to retain their posts but appointed a number of new directors to manage what had been MAORT operations. One of this group's first moves was to put a battalion of Hungarian secret police on the company payroll, to guard the property and to watch the employees. In 1949 most company offices were moved from Budapest to Nagykanizsa, about 20 miles from the Zala fields. The new directors also fixed long hours at low wages for the employees. In 1950 monthly wages for common laborers were 300 forints; office employees, 400-800 forints; skilled laborers and drivers, 500-900 forints; section head and technicians 800-1600 forints; engineers, 1,200-3,200 forints. Even at the official exchange rate of 12 forints per dollar these were low wages, and the actual rate in 1950 was nearer 36 forints per dollar. Moreover, up to 30 percent

[1] [for footnote, cf cat. 116, p. 73 -- Analyst]

RECENT DEVELOPMENTS

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is deducted from these earnings for such items as "voluntary" subscriptions to state loans, newspapers, cultural associations, union dues, and "Korea fighters."

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At the end of 1950 the communist authorities decided to reorganize MAORT after the Soviet pattern. The move, put into effect in June 1951, created the National Carbon Dioxide Producing Company at Mihályi; the National Pipeline Company; the National Mineral Oil Machine Repair Company and other, smaller groups, as well as the National Transdanubian Oil Company (Dunántuli Kőolajtermelő Vállalat), all with headquarters at Nagykanizsa.

The last-mentioned company included the Lovászi, Lispe, and Hahót-Ederics fields, as well as gasoline, propanebutane, natural gas, and carbon black plants. According to some sources it was later divided into two branches, one covering production and the other exploration. Soon after the reorganization, Hungary's economic czar Zoltan Vas, ordered all its administrative and technical offices moved from Nagykanizsa to the oil fields. It appears that the supervision of production and part of the exploratory activities are located at the fields themselves, while all the auxiliary branches, such as equipment repairing and pipeline construction, have their headquarters at the nearby town of Nagykanizsa, which is being developed as an oil center.

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The geophysical division of MAORT was merged into the government's Geophysical Institute (Eötvös Loránt Geophizikai Intézet) which takes care of all the geophysical exploration in Hungary, including the Hungarian-Soviet Oil Company (Magyar-Soviet Olajipari R.T.), or Maszovol, concessions east of the Danube. According to a reliable report, the headquarters of the Geophysical Institute are located in Budapest at 14 Voroshilov Rd., and its activities in the spring of 1952 in western Hungary included exploratory drilling and geological surveying at Tatabánya, Keszthely, Zalaegerszeg, and Fertőszentmiklós using Hungarian and German equipment. Some Russian geologists joined the geological group at Nagykanizsa to help the Hungarians find new oil fields. There were also per-

aside an equal amount of land for distribution among those whose security is desirable not so much for economic but rather for social and national reasons.

Post-war Hungary took the lead in Europe in regulating night work and woman and child labour, anticipating in some instances the recommendations of the International Labour Office at Geneva. The system of minimum wages, paid holidays and the restriction of working hours was established at an early date. This system not only covered the regulation of wages in industry, in which it is in force almost 100 per cent, but in agriculture as well, though in the latter it will be necessary to surmount considerable difficulties. The crowning achievement of Hungarian social progress was the new family protection policy, which is administered by a separate institution. Through its state-wide organization it has helped tens of thousands of large families in the country to own their own homes, and raised the living standard of the agrarian population by giving not only economic help, but moral support and vocational guidance as well.

The second world war — in which Hungary participates — necessitated the curtailment of certain social services, as was the case in many other countries. For instance, the regulations governing the limitation of the working week were suspended. Further, for the duration it was made possible for employers to compensate their workers for paid holidays. On the whole, it has not only been possible to maintain the pre-war social standards but to raise them as well. In the 1943 budget 250 million pengős are earmarked for expenditures of a social nature. This amount equals one fourth of the average peace-time budget. The trend of social policy as practised in Hungary and in most other

II. GENERAL SOCIAL POLICY.

Problems of the Civil Service.

The most pressing problem to be met during the critical situation brought about by the Treaty of Trianon was that dealing with the distressing plight of the educated classes. Countless obstacles hindered the employment of educated youths. Since the country had to be reorganized after the first world war and the ensuing communist revolution, the problems of the civil servants occupied a prominent position and had to be dealt with regardless of the almost insurmountable difficulties.

Since 1918 the salaries of the civil servants have been raised several times when compatible with the national budget. Social considerations played a prominent part in this respect in so far as the ratio of increases in the lower brackets was higher than in the upper ones. Again, when conditions necessitated salary cuts, those in the lower brackets were given similar proportionate consideration. It is worthy of note that the interests of family protection were always given foremost consideration, and the adjustment of family allowances was always on a progressive basis.

This policy has the following result; while a civil servant in the fifth grade receives not quite 70% of his 1918 salary, those in the eleventh grade receive 110%, and some messengers 140%. The family allowance of a civil servant in the eleventh grade was 10% of his salary for his wife and each child. Now he receives allowances on the following scale: 30% of his salary for his wife, 30% for his first child, 30% for his second, 35% for his third, 42% for his fourth, and 50% for his fifth child.

Protection of the agricultural labourers.

745 In spite of all the difficulties inherent in the years
241 of depression following the first world war, the Government introduced social welfare measures which will have their beneficial effects on the welfare of the agrarian population for a long time to come.

465 These measures were taken by the Government as
468 far back as 1923. Act XXV of 1923 laid the foundation for the regulation of minimum wages for farm labourers, another law (Act XXIV of 1923) regulates the legal procedure in wage disputes, a third law (Act XI of 1923)
[476] secured subsidies for the co-operative societies of farm labourers. The interest of the farm labourers under contract was promoted by Act V of 1933 in a marked degree by regulating the forms of contracts.

Minimum wages.

465 Since the minimum wage act of 1923 only regulated
241 the wages of day-labourers, in 1940 a new law was enacted which extended the benefit of minimum wage legislation to all kinds of farm labour. In conformity with the provisions of this law the minimum wage standards are fixed in each county separately according to subsistence standards, value of labour and working conditions prevailing in the county. Care was taken that laws enacted for the protection of labour should be enforced. To this end the agricultural labour inspection bureau was established, which is entrusted with the task of enforcing the provisions of the law.

Employment bureaux.

464 At the time of the establishment of the labour in-
241 spection bureaux the state modernized the agricultural

ventions adopted were put into effect immediately. The majority of the recommedations of the International Labour Office were acted upon in Hungary, and only those were not implemented which were not relevant to Hungarian conditions, or those which had already been enacted, in some instances in a more sweeping form.

Protection of labour interests.

The intention of these administrative measures was to protect the workers againt insecurity and occupational risks. In the meantime effective steps were taken to further the material well-being of the workers, although more vigorous measures to achieve this end could only be instituted after the depression and when the state regained full control of its finances. The year 1935 was a definite turning-point in this respect ; from then on the provision of social security for workers became one of the paramount concerns of public policy in Hungary. In this stage of the social security programme, labour legislation dealt with the following : general reduction of working hours, minimum wages, paid holidays for workers, child educational allowances, family allowances for workers, obligation of the employers to report large scale lay-offs, in certain labour categories regulation of the amount of notice and of the quittance-money to be paid to discharged workers.

In 1935 an order in council empowered the proper minister to reduce the working day to eight hours and the working week to 48 hours in those branches of industry where this was still necessary. The hours of work and minimum wages were again regulated by Act XXI of 1937 which extends the limitation of working hours to other occupations besides industry and trade. The limitation

of working hours was made indirectly effective under the minimum wage law in so far as the law orders that at least time and a quarter must be paid for overtime. Concurrently the state delegated authority to specially appointed wage-boards to establish minima appropriate to particular industries not previously regulated. Minimum wages are applied in 75 to 80%, and hours of work are regulated in 95% of industry. Employers and employees are represented in equal numbers on the minimum wage boards. In consequence of the new measures the exceptionally low wages disappeared from the labour market and the general level of wages and the purchasing power of the workers increased year by year.

Paid holidays.

In 1936 new developments took place in this province. By Act VII of 1936 the paid holidays for apprentices were realized and by Act XXI of 1937 this benefit was made available to a large section of workers. Under this law in the trades to which the industrial law applies, every worker is entitled to paid holidays subject to one year's continuous employment. The holiday has to be given between April 1st and October 31st, the days running consecutively, and its length is increased after every year of employment. These regulations do not apply to business executives or to employees whose yearly salary exceeds 6000 pengős. Small tradesmen who cannot spare their workers are also exempted from this law.

Family wage allowances.

Further great progress was registered in wages legislation by Act XXXVII of 1938, which introduced into the

465 wage system allowances for children. Hungary was the fourth state in Europe to supplement the wages of labourers according to the size of their families. This law only applies to firms employing more than twenty labourers. By the end of 1941 firms with a total of more than 800,000 workers on their pay-roll paid family and child education allowances to 180,000 of their employees having in all 332,000 children.

Amount of notice, quittance money.

466 When the social wage policy was put into practice a law was passed ordering industry to give two weeks' notice to the proper Ministry before laying off any large number of workers.

We refer here to that important protective measure in force since 1937 which regulates the amount of notice to be given to industrial labourers and fixes the amount of quittance money payable to them. This measure was later extended to include clerks, shop assistants and highly skilled workers. This procedure was applied by common law and legal practice to several categories of workers some decades before the above law was enacted.

Employment offices.

467 During the past few years the sphere of activities of the labour boards has been gradually extended and the finding of employment increased. In 1942 the state started gradually to take over the municipal labour exchanges and by 1943 there were already 24 government employment offices. Parallel with the organization of government employment offices goes the registration of workers, which makes possible the nation-wide control of the supply and

722 spent by workers on active military service should count
461 more than the actual days when computing the time which entitles the workers to paid holidays.

War-time wages.

722 To safeguard the living wage of the workers and to
465 keep it in alignment with the rising costs of living the Government ordered that wage supplements should be paid above the regular wage rate stabilized for the duration. The payment of these war-time wage supplements was ordered on three occasions, consequently the wage rate has risen thirty per cent on the average since the beginning of the war.

Enlisted workers.

901 Several new legal and administrative measures were
427 passed to safeguard the interests of enlisted men and their dependents. In 1941 an order in council directed that for non-payment of rents enlisted men cannot be made to vacate houses, apartments or living quarters rented by them and the courts can adjudge that their rents be payable by easy instalments.

Discharge.

901 Industrial and commercial employees cannot be
466 discharged while they are serving in the forces. If the employee has received living quarters from his employer in addition to his wages they cannot be taken away from him or from his dependents. Enlisted men must be re-employed if they report for work within eight days after their discharge from the forces.

Wage allowances to dependents.

The employer must pay the enlisted men in the ranks or their dependents 50% of their monthly salary during their period of military training and this amount is increased by 10% for each child. The rent of their living quarters if supplied by the employer cannot be deducted from the above amount.

Industrial and agricultural labourers.

The industrial connections of the enlisted men cannot be severed while they are doing military service, and the same applies to agricultural labourers, and if they have dependents their employer must continue to furnish the dependents with the services in kind contracted for (rent-free homes, fuel, garden space, keeping a certain number of domestic animals, etc.).

Since 1938 laws ensure that the jobs of farm overseers be held for them and their dependents be provided for by the employer while the overseers serve with the army. Since 1942 the needy dependents of enlisted men get separation allowances. They also enjoy certain privileges in rationing.

Civil servants.

A number of legal measures protect the interests of enlisted civil servants. The essence of these measures is that no distinction should be made between enlisted and exempted civil servants to the detriment of the former in the matter of promotion, placement in rank, etc.

Disabled soldiers, war widows.

One of the provisions of the National Defence Act orders that disabled soldiers and war widows should be